

**THE METROHEALTH SYSTEM
BOARD OF TRUSTEES
FINANCE COMMITTEE
REGULAR MEETING MINUTES**

DATE: Tuesday, January 17, 2018

TIME: 8:00 to 10:00 am

PLACE: MetroHealth Medical Center
K107, Business Services Building

COMMITTEE TRUSTEES: Mr. McDonald and Dr. Silvers

ADDITIONAL TRUSTEES: Ms. Dee and Mr. Moss

STAFF: B. Boulanger, M.D., A. Boutros, M.D., N. Chehade, M.D., G. Himes,
J. Kerkay, M. Phillips, J. Platten, C. Richmond, M. Stern

GUESTS:

Dr. Silvers called the regular meeting of the Finance Committee to order at 8:04 am. Please note the minutes are written to conform to the printed agenda and are not necessarily in the order of discussion.

- I. The minutes of the regular meeting held on December 19, 2017 were approved as presented.

II. INFORMATION ITEMS

Craig Richmond, Executive Vice President and Chief Financial Officer provided an overview of the 2017 Unaudited Financial and Operational Results. Mr. Richmond reported that Adjusted Earnings before Interest, Depreciation and Amortization ("EBIDA") for the twelve months ended December 31, 2017 was \$96.1 million, an increase of \$35.1 million over the prior year twelve months ended December 31, 2016 which had an EBIDA of \$60.9 million.

Mr. Richmond further reported that total operating income for the twelve months ended December 31, 2017 was \$41.5 million, compared with operating income of \$8.6 million in 2016, a \$32.9 million year-over-year increase. Both EBIDA and operating income growth were mainly attributed to enhanced access with new ambulatory sites and freestanding emergency departments, expansion in retail and contracted pharmacy operations, and population health initiatives.

Total operating revenue in 2017 was \$1,127.8 million as compared to prior year-to-date total operating revenue of \$1,041.5 million which was an increase of 8.3 percent. The revenue growth is attributable to both an increase in net patient service revenue of \$68.3 million or 7.6 percent and an increase in other operating revenue of \$18.0 million or 12.3 percent mainly driven by growth in retail and contract pharmacy and value-based programs.

Mr. Richmond reported that during 2017, the System experienced an overall improvement in payor mix due to the integration and retention of former HealthSpan patients in 2016. This change in payor mix contributed approximately \$8.4 million in additional revenues for the twelve months ended December 31, 2017. Inpatient case mix index ("CMI") for 2017 was 1.59, an increase of 0.02 from the CMI in 2016 which was 1.57. The increase in patient acuity contributed approximately

\$5.2 million of net patient service revenue. The Medicare CMI increased to 1.79 in 2017 as compared to 1.75 in 2016.

Mr. Richmond noted the System recorded total expenses of \$1,086.3 million in the twelve months ended December 31, 2017 as compared to \$1,032.8 million in 2016, which was an increase of \$53.5 million or 5.2 percent. Most of the increase was in salary and wages for additional staff to accommodate former HealthSpan patients. Overall, the total expenses compared favorably to total operating revenue increase of \$86.3 million.

Mr. Richmond mentioned that Geoff Himes, Vice President of Finance would provide a review of the accounting treatment for GASB Statement No. 68 – Accounting and Financial Reporting for Pensions.

Mr. Richmond proceeded with reviewing the Statement of Net Position as of December 31, 2017, stating total assets increased significantly from the prior year-end due to the 2017 bond issuance proceeds. Other areas of note were the \$9.4 million increase in net patient accounts receivable which was attributed to an increase in the average net patient service revenue per day and a \$27.4 million increase in investments which was mainly attributed to an increase in the money market account holdings. Similar to total assets, total liabilities increased significantly from prior year-end balances which was mainly due to the 2017 bond issuance.

Mr. Richmond reviewed Unrestricted Cash and Investment balances, noting that the 2017 year-end balance had increased approximately \$40.0 million compared to last year. Regarding MetroHealth's bond covenants and rating agency median ratios, Jeff Kerkay, Treasurer shared that the System's bond covenants (days cash on hand and minimum debt service coverage ratio) are within compliance. Lastly, the Advisory Board Credit Rating Strength Diagnostic Tool was reviewed which measures the system's financial metrics against benchmarks derived from hospital medians of the major credit rating agencies.

Geoff Himes, Vice President of Finance provided an overview of the 2017 Capital Spend and process. Mr. Himes shared how the capital spend is focused on new services, access and strategy initiatives, and routine/replacement capital is analyzed through the lens of the Campus Transformation. In addition, Mr. Himes stated that the capital process has been redesigned over the years resulting in a significant improvement in the execution of capital projects.

Mr. Himes then provided a review of GASB Statement No. 68 – Accounting and Financial Reporting for Pensions, stating the GASB 68 adjustment is recorded on an annual basis using OPERS actuary reports. Mr. Himes reiterated from prior discussions the liabilities recognized under GASB 68 meet the GASB's definition of a liability for accounting standards. Mr. Himes mentioned that although the pension liabilities recognized in accordance with GASB Statement No. 68 meet the definition of a liability in its conceptual framework for accounting standards, they do not represent legal claims on the System's resources, and there are no cash flows associated with the recognition of net pension liabilities, deferrals and expense.

III. NON-CONSENT/ACTION ITEMS

A. There are no items to report at this time.

IV. CONSENT ITEMS

- A.** A Recommendation for the Continued Engagement of Kaufman Hall as The MetroHealth System's Financial Advisor for Transformation

The Committee unanimously approved the recommendation for full Board action.

- B.** A Recommendation for Delegations of Limited Functions Related to the Management and Control of the Hospital

The Committee unanimously approved the recommendation for full Board action.

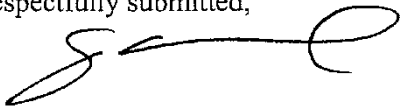
- C.** A Recommendation for the Purchase of Excess Professional and General Liability Insurance from Lloyd's of London

The Committee unanimously approved the recommendation for full Board action.

At this point in the meeting a motion was made, seconded and passed to move the Committee into Executive Session to discuss trade secrets and litigation matters. The Committee returned to regular session at 9:56 a.m.

There being no further business to bring before the Committee, the meeting was adjourned at 10:06 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Craig Richmond', with a stylized, flowing script.

Craig Richmond
Executive Vice President and
Chief Financial Officer